

VILLAGE OF VANDERBILT
Otsego County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Vanderbilt	County Otsego
Audit Date March 31, 2006	Opinion Date July 21, 2006	Date Accountant Report Submitted to State: July 21, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature Campbell, Kusterer & Co., P.C.		Zip 48707	

VILLAGE OF VANDERBILT
Otsego County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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July 21, 2006

INDEPENDENT AUDITOR'S REPORT

To the Village Council
Village of Vanderbilt
Otsego County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Village of Vanderbilt, Otsego County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Vanderbilt's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Village of Vanderbilt, Otsego County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Village's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

VILLAGE OF VANDERBILT
Otsego County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

We are providing this letter in connection with your audit of the financial statements of the Village of Vanderbilt as of March 31, 2006.

We have made available to you all financial records and related data, and all relevant monitoring reports if any received from funding sources. In addition, copies of the minutes of the meetings of the Vanderbilt Village Council have been provided for you, as well as all budgets, amended budgets, and financial statements provided to the Village Council. The financial statements properly classify all funds and activities.

The Village of Vanderbilt has satisfactory title to all owned assets; there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

There have been no violations of budget ordinance laws including those pertaining to adopting and amending budgets. All necessary public hearings have been properly noticed and held. The minutes of these hearings are on file.

FINANCIAL HIGHLIGHTS

Net assets as of March 31, 2006, totaled \$603,314.25 for governmental activities. Revenues were \$212,282.69 for general government purposes, \$52,587.05 for major streets, and \$34,995.05 for local streets. Our equipment fund revenues were \$48,684.00. General activities showed a slight increase in funds.

Our taxable value was \$8,885,923.00, which was an increase over the previous year.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Village and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Village in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Village as a whole using accounting methods used by private companies. The statement of net assets includes all of the Village's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

VILLAGE OF VANDERBILT
Otsego County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended March 31, 2006

ENTITY-WIDE FINANCIAL STATEMENTS (continued)

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Village are reported as governmental activities. This includes the General Fund, Major Street Fund, Local Street Fund and the net effect of the Equipment Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Village's funds, focusing on significant (major) funds not the Village as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Village Council also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Village has the following types of funds:

Governmental funds: All of the Village's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Village's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Village's governmental activities include the General Fund, Major Street Fund, Local Street Fund, and the net effect of the Equipment Fund.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Our cash position in governmental activities remains strong. As of March 31, 2006, we have no external debt.

During the fiscal year ended March 31, 2006, the village collaborated with the township in resurfacing Old 27 (Mill). The township had received a major grant; the county and the village added funds. The Village contributed \$30,000.00, which effectively completed the resurfacing of Old 27 within the village limits (a project begun in 2004-05). The project was completed in December, 2005.

The Village has for many years had three residential units which were community eyesores. Based on our Dangerous Building Ordinance two of the units were successfully sued, and the units were demolished by court order. The third unit has reverted to the county for non payment of taxes. We have filed intent to exercise first right of refusal, and will then demolish the structure. This will end a long time negative influence on the community, and will hopefully encourage others in the community to upgrade their properties.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

Our General fund covers expense for our public works services including street lights, park maintenance, operation and maintenance of the Village hall, the cost of operating general government (including wages), payment of taxes and insurance, health insurance for full-time employees, and employee retirement contribution. The cost of items covered by this fund was \$123,369.42 for year 2005-06.

VILLAGE OF VANDERBILT
Otsego County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS (continued)

Road construction, upgrade, and maintenance is covered by our street funds – major and local. The total cost of major street care for the year was \$58,792.37. Local street care was \$26,098.85. Snow removal which is a significant expense in northern Michigan is also covered by street funds.

Our Equipment fund provided funds for the purchase of a new truck and plow, depreciation, and vehicle maintenance.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Village's governmental activities invested \$0 in capital assets.

The Village has no long-term debt liability.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

In March, the Village began discussion on a change in Village Administration for an experimental period of one year, using a coordinator to oversee village activities and to make major changes in record retention, grant work, and to follow up on legal procedures such as alley closings. This change will take place in May 2006. The future coordinator has had many years experience in government (accounting, planning and zoning). It is hoped that this experiment will result in improved business procedures, and will allow the Village President more time to concentrate on residents' concerns.

CONTACTING THE VILLAGE'S MANAGEMENT

Our financial records are available to our taxpayers, creditors, and investors and available as requested, and provide a general overview of our finances. They demonstrate the Village's accountability for the revenues it receives. If you have any questions concerning this report please contact the Clerk, Treasurer, or Coordinator, at (989) 983-4244 Monday through Friday from 10 a.m. to 4 p.m.

VILLAGE OF VANDERBILT
Otsego County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2006

Governmental
Activities

ASSETS:

CURRENT ASSETS:

Cash in bank	375 286 32
Taxes receivable	6 251 24
Due from State of Michigan	<u>12 482 57</u>

Total Current Assets	<u>394 020 13</u>
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NON-CURRENT ASSETS:

Capital Assets	518 062 31
Less: Accumulated Depreciation	<u>(308 768 19)</u>

Total Non-current Assets	<u>209 294 12</u>
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TOTAL ASSETS	<u>603 314 25</u>
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LIABILITIES AND NET ASSETS:

LIABILITIES:

CURRENT LIABILITIES:

Accounts payable	<u>-</u>
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Total Current Liabilities	<u>-</u>
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NON-CURRENT LIABILITIES	<u>-</u>
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Total Non-current Liabilities	<u>-</u>
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Total Liabilities	<u>-</u>
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NET ASSETS:

Invested in Capital Assets, Net of Related Debt	209 294 12
Unrestricted	<u>394 020 13</u>

Total Net Assets	<u>603 314 25</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>603 314 25</u>
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The accompanying notes are an integral part of these financial statements.

VILLAGE OF VANDERBILT
Otsego County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

		<u>Program Revenue</u>	<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
General government	56 127 38	1 400 00	(54 727 38)
Public works	113 474 28	-	(113 474 28)
Culture and recreation	12 904 54	-	(12 904 54)
Other	21 560 44	-	(21 560 44)
Total Governmental Activities	<u>204 066 64</u>	<u>1 400 00</u>	<u>(202 666 64)</u>
General Revenues:			
Property taxes			68 538 71
State revenue sharing			127 541 47
Interest			13 506 20
Miscellaneous			9 063 37
Total General Revenues			<u>218 649 75</u>
Change in net assets			15 983 11
Net assets, beginning of year			<u>587 331 14</u>
Net Assets, End of Year			<u>603 314 25</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF VANDERBILT
Otsego County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
<u>Assets</u>				
Cash in bank	77 421 41	122 015 02	58 110 81	257 547 24
Taxes receivable	6 251 24	-	-	6 251 24
Due from State of Michigan	-	8 649 94	3 832 63	12 482 57
Total Assets	<u>83 672 65</u>	<u>130 664 96</u>	<u>61 943 44</u>	<u>276 281 05</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	83 672 65	130 664 96	61 943 44	276 281 05
Total fund equity	<u>83 672 65</u>	<u>130 664 96</u>	<u>61 943 44</u>	<u>276 281 05</u>
Total Liabilities and Fund Equity	<u>83 672 65</u>	<u>130 664 96</u>	<u>61 943 44</u>	<u>276 281 05</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF VANDERBILT
Otsego County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	276 281 05
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	518 062 31
Accumulated depreciation	(308 768 19)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets \$242,729.57 net of capital assets of \$124,990.49, included above	<u>117 739 08</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>603 314 25</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF VANDERBILT
Otsego County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended March 31, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Total</u>
Revenues:				
Property taxes	59 949 41	-	8 589 30	68 538 71
State revenue sharing	55 893 00	47 194 91	24 453 56	127 541 47
Interest	2 494 81	5 392 14	1 952 19	9 839 14
Rent	1 400 00	-	-	1 400 00
Miscellaneous	<u>4 963 37</u>	<u>-</u>	<u>-</u>	<u>4 963 37</u>
Total revenues	<u>124 700 59</u>	<u>52 587 05</u>	<u>34 995 05</u>	<u>212 282 69</u>
Expenditures:				
General government:				
General government	42 159 05	-	-	42 159 05
Building and grounds	9 575 54	-	-	9 575 54
Public works:				
Highways and streets	42 568 21	58 792 37	26 098 85	127 459 43
Culture and recreation:				
Parks and recreation	7 506 18	-	-	7 506 18
Other:				
Other functions	<u>21 560 44</u>	<u>-</u>	<u>-</u>	<u>21 560 44</u>
Total expenditures	<u>123 369 42</u>	<u>58 792 37</u>	<u>26 098 85</u>	<u>208 260 64</u>
Excess (deficiency) of revenues over expenditures	1 331 17	(6 205 32)	8 896 20	4 022 05
Fund balances, April 1	<u>82 341 48</u>	<u>136 870 28</u>	<u>53 047 24</u>	<u>272 259 00</u>
Fund Balances, March 31	<u>83 672 65</u>	<u>130 664 96</u>	<u>61 943 44</u>	<u>276 281 05</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF VANDERBILT
Otsego County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 4 022 05

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense (28 450 52)
Capital Outlay -

Internal service funds are used by management to charge the costs of equipment services
to individual funds. Net revenue of of the internal service fund is reported within
governmental activities, net of depreciation expense of \$18,659.37, included above 40 411 58

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 15 983 11

The accompanying notes are an integral part of these financial statements.

VILLAGE OF VANDERBILT
Otsego County, Michigan

STATEMENT OF NET ASSETS – INTERNAL SERVICE FUND REPORTED IN GOVERNMENTAL ACTIVITIES
March 31, 2006

	<u>Total (Equipment Fund)</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	<u>117 739 08</u>
Total Current Assets	<u>117 739 08</u>
NON-CURRENT ASSETS:	
Capital Assets	313 867 77
Less: Accumulated Depreciation	<u>(188 877 28)</u>
Total Non-current Assets	<u>124 990 49</u>
TOTAL ASSETS	<u><u>242 729 57</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Liabilities	<u>-</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	124 990 49
Unrestricted	<u>117 739 08</u>
Total Net Assets	<u>242 729 57</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>242 729 57</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF VANDERBILT
Otsego County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –
INTERNAL SERVICE FUND REPORTED IN GOVERNMENTAL ACTIVITIES
Year ended March 31, 2006

	Total (Equipment Fund)
OPERATING REVENUES:	
Charges for services	44 584 00
Miscellaneous	<u>4 100 00</u>
Total Operating Revenues	<u>48 684 00</u>
OPERATING EXPENSES:	
Supplies	6 451 42
Repairs and maintenance	<u>5 488 06</u>
Total Operating Expenses	<u>11 939 48</u>
Operating Income (loss) before depreciation	36 744 52
Less: depreciation	<u>(18 659 37)</u>
Operating income (loss)	<u>18 085 15</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest income	<u>3 667 06</u>
Total Non-operating Expenses	<u>3 667 06</u>
Change in net assets	21 752 21
Net assets, beginning of year	<u>220 977 36</u>
Net Assets, End of Year	<u>242 729 57</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF VANDERBILT
Otsego County, Michigan

STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUND REPORTED IN GOVERNMENTAL ACTIVITIES
Year ended March 31, 2006

	Total (Equipment Fund)
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	44 584 00
Cash payments to suppliers for goods and services	(11 939 48)
Cash received from miscellaneous revenue	<u>4 100 00</u>
Net cash provided (used) by operating activities	<u>36 744 52</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Acquisition of capital assets	<u>(90 040 00)</u>
Net cash provided (used) by capital financing activities	<u>(90 040 00)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income	<u>3 667 06</u>
Net cash provided (used) by investing activities	<u>3 667 06</u>
Net increase (decrease) in cash	(49 628 42)
Cash beginning of year	<u>167 367 50</u>
Cash End of Year	<u><u>117 739 08</u></u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Income (loss) from operations	18 085 15
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	<u>18 659 37</u>
Net Cash Provided (Used) in Operating Activities	<u><u>36 744 52</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF VANDERBILT
Otsego County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Village of Vanderbilt, Otsego County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Village contain all the Village funds that are controlled by or dependent on the Village's executive or legislative branches.

The reporting entity is the Village of Vanderbilt. The Village is governed by an elected Village Council. As required by generally accepted accounting principles, these financial statements present the Village as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Village's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

VILLAGE OF VANDERBILT
Otsego County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. Fund equity is segregated into contributed capital and retained earnings components. Proprietary fund type operating statement presents revenues and expenses in net total assets. The accrual basis of accounting is utilized by the proprietary fund type. Under this basis of accounting revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Proprietary Fund

Internal Service Fund

This fund is used to record the financing of goods or services provided by the local unit to other departments and funds or to other governmental units on a cost reimbursement basis.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Village. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

All purchases of materials are reflected in expenses when paid in all funds.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

VILLAGE OF VANDERBILT
Otsego County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Property Taxes (continued)

Properties are assessed as of December 31 and the related property taxes become a lien on July 1 of the following year. These taxes are due on September 15 before they are added to the county tax rolls. The 2005 tax roll millage rate was 7.7173 mills, and the taxable value was \$8,885,923.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Village as assets with an initial cost of more than \$500.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	20-40 years
Furniture and equipment	5-25 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Village provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

VILLAGE OF VANDERBILT
Otsego County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Village Council for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Village Council.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Village Council.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Village Council during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated two banks for the deposit of Village funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Village's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>375,286.32</u>

VILLAGE OF VANDERBILT
Otsego County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>278 356 52</u>
Total Deposits	<u>378 356 52</u>

The Village of Vanderbilt did not have any investments as of March 31, 2006.

Note 4 – Capital Assets

Capital asset activity of the Village's Governmental activities for the current year was as follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/06</u>
<u>Governmental Activities:</u>				
Land	2 151 00	-	-	2 151 00
Buildings	122 865 46	-	-	122 865 46
Equipment	<u>339 713 83</u>	<u>90 040 00</u>	<u>(36 708 00)</u>	<u>393 045 85</u>
Total	464 730 31	90 040 00	(36 708 00)	518 062 31
Accumulated Depreciation	<u>(317 025 67)</u>	<u>(28 450 52)</u>	<u>36 708 00</u>	<u>(308 768 19)</u>
Net Capital Assets	<u>147 704 64</u>	<u>61 589 48</u>	<u>-</u>	<u>209 294 12</u>

Note 5 – Pension Plan

The Village has a defined contribution pension plan covering the Village's full-time employees. For the fiscal year ended March 31, 2006, the Village paid \$1,000.00 into the pension plan.

Note 6 – Deferred Compensation Plan

The Village does not have a deferred compensation plan.

Note 7 – Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Village has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Village of Vanderbilt does not issue building permits. Building permits are issued by the County of Otsego.

VILLAGE OF VANDERBILT
Otsego County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	67 613 00	67 613 00	59 949 41	(7 663 59)
State revenue sharing	56 550 00	56 500 00	55 893 00	(657 00)
Interest	1 417 00	1 417 00	2 494 81	1 077 81
Rent	-	-	1 400 00	1 400 00
Miscellaneous	8 000 00	8 000 00	4 963 37	(3 036 63)
Total revenues	133 580 00	133 580 00	124 700 59	(8 879 41)
Expenditures:				
General government:				
General government	55 110 00	47 738 46	42 159 05	(5 579 71)
Building and grounds	8 300 00	9 650 00	9 575 54	(74 46)
Public works:				
Highways and streets	40 750 00	45 500 00	42 568 21	(2 931 79)
Culture and recreation:				
Parks and recreation	8 820 00	8 570 00	7 506 18	(1 063 82)
Other:				
Other functions	20 600 00	22 121 24	21 560 44	(560 80)
Total expenditures	133 580 00	133 579 70	123 369 42	(10 210 80)
Excess (deficiency) of revenues over expenditures	-	-	1 331 17	1 331 29
Fund balance, April 1	-	-	82 341 48	82 341 48
Fund Balance, March 31	-	-	83 672 65	83 672 87

VILLAGE OF VANDERBILT
Otsego County, Michigan

BUDGETARY COMPARISON SCHEDULE – MAJOR STREET FUND
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
State revenue sharing	50 000 00	50 000 00	47 194 91	(2 805 09)
Interest	<u>2 250 00</u>	<u>2 250 00</u>	<u>5 392 14</u>	<u>3 142 14</u>
Total revenues	<u>52 250 00</u>	<u>52 250 00</u>	<u>52 587 05</u>	<u>337 05</u>
Expenditures:				
Public works:				
Highways and streets	<u>63 920 00</u>	<u>63 920 00</u>	<u>58 792 37</u>	<u>(5 127 63)</u>
Total expenditures	<u>63 920 00</u>	<u>63 920 00</u>	<u>58 792 37</u>	<u>(5 127 63)</u>
Excess (deficiency) of revenues over expenditures	(11 670 00)	(11 670 00)	(6 205 32)	5 464 68
Fund balance, April 1	<u>11 670 00</u>	<u>11 670 00</u>	<u>136 870 28</u>	<u>125 200 28</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>130 664 96</u>	<u>130 664 96</u>

VILLAGE OF VANDERBILT
Otsego County, Michigan

BUDGETARY COMPARISON SCHEDULE – LOCAL STREET FUND
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	8 589 30	8 589 30	8 589 30	-
State revenue sharing	22 250 00	22 250 00	24 453 56	2 203 56
Interest	800 00	800 00	1 952 19	1 152 19
Total revenues	<u>31 639 30</u>	<u>31 639 30</u>	<u>34 995 05</u>	<u>3 355 75</u>
Expenditures:				
Public works:				
Highways and streets	<u>46 920 00</u>	<u>46 920 00</u>	<u>26 098 85</u>	<u>(20 821 15)</u>
Total expenditures	<u>46 920 00</u>	<u>46 920 00</u>	<u>26 098 85</u>	<u>(20 821 15)</u>
Excess (deficiency) of revenues over expenditures	(15 280 70)	(15 280 70)	8 896 20	24 176 90
Fund balance, April 1	<u>15 280 70</u>	<u>15 280 70</u>	<u>53 047 24</u>	<u>37 766 54</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>61 943 44</u>	<u>61 943 44</u>

VILLAGE OF VANDERBILT
Otsego County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended March 31, 2006

General government:	
Village Council:	
Wages	5 190 00
Office supplies	1 896 07
Printing and publishing	1 808 40
Professional services	14 192 80
Community promotion	831 06
Memberships and dues	1 021 00
President:	
Wages	1 980 00
Miscellaneous	78 75
Clerk:	
Wages	8 426 04
Miscellaneous	223 04
Treasurer:	
Salary	2 916 68
Miscellaneous	308 21
Planning Commission	2 357 00
Zoning Administrator	930 00
	<u>42 159 05</u>
Building and grounds:	
Supplies	746 43
Telephone	1 739 12
Utilities	6 683 62
Repairs and maintenance	406 37
	<u>9 575 54</u>
Highways and streets:	
Public works:	
Wages	14 970 00
Supplies	250 04
Pension	1 000 00
Hospital insurance	5 701 41
Contracted services – sanitation	3 485 00
Equipment rental	8 282 12
Street lighting	8 879 64
	<u>42 568 21</u>
Parks and recreation:	
Wages	2 881 50
Operating supplies	580 86
Utilities	693 34
Equipment rental	3 350 48
	<u>7 506 18</u>
Other functions:	
Insurance	17 539 00
Payroll taxes	4 021 44
	<u>21 560 44</u>
Total Expenditures	<u>123 369 42</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

July 21, 2006

To the Village Council
Village of Vanderbilt
Otsego County, Michigan

We have audited the financial statements of the Village of Vanderbilt for the year ended March 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Village of Vanderbilt in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Village Council
Village of Vanderbilt
Otsego County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Village's financial statements and this communication of these matters does not affect our report on the Village's financial statements, dated March 31, 2005.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.
CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants